

**RUSSELLVILLE INDEPENDENT
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the accompanying financial statements of the ***Russellville Independent School District*** (the "District") as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's financial statements referred to above do not include the following items which should be included to conform with accounting principles generally accepted in the United States of America.

The District does not maintain detail cost records of fixed assets relating to the governmental fund types, therefore, the general fixed assets account group is not recorded. Accounting principles generally accepted in the United States of America require the District to record fixed assets in the account group for which financial resources have been used and for which accountability can be maintained.

The District records all leases as operating leases and does not review the lease agreements to determine if they should be recorded as capital leases. Under accounting principles generally accepted in the United States of America, capital leases relating to proprietary fund types would record property and debt in the specific fund, whereas the governmental fund type would record the fixed asset in the general fixed assets account group along with the corresponding debt in the general long-term debt account group.

The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the **Russellville Independent School District** as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2003 on our consideration of **Russellville Independent School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of **Russellville Independent School District** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional information shown on pages 31 through 45 is

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District

presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky
August 8, 2003

FINANCIAL STATEMENTS

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2003

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUPS	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	ENTERPRISE	AGENCY AND TRUST	GENERAL LONG-TERM OBLIGATIONS	
ASSETS								
Cash — <i>Note 2</i>	\$ 983,431	\$ 96,419	\$ 304,700	\$ 0	\$ 82,401	\$ 107,305	\$ 0	\$ 1,574,256
Investments — <i>Note 2</i>	482,091	0	0	0	0	0	0	482,091
Accounts receivable:								
Taxes — current	62,365	0	0	0	0	0	0	62,365
Taxes — delinquent	110	0	0	0	0	0	0	110
Accounts	6,244	154	0	0	0	2,259	0	8,657
Intergovernmental	0	75,915	0	0	0	0	0	75,915
Inventory	0	0	0	0	3,645	0	0	3,645
Fixed assets, net — <i>Note 3</i>	0	0	0	0	48,913	0	0	48,913
Amounts to be provided for retirement of general long-term obligations — <i>Note 4</i>	0	0	0	0	0	0	4,086,269	4,086,269
TOTAL ASSETS	\$ 1,534,241	\$ 172,488	\$ 304,700	\$ 0	\$ 134,959	\$ 109,564	\$ 4,086,269	\$ 6,342,221

**LIABILITIES AND
FUND EQUITY**

LIABILITIES

Accounts payable	\$ 93,538	\$ 17,063	\$ 27,792	\$ 0	\$ 4,700	\$ 13,755	\$ 0	\$ 156,848
Payroll liabilities	103,640	0	0	0	0	0	0	103,640
Other current liabilities	196,604	0	0	0	0	0	0	196,604
Due to school groups	0	0	0	0	0	95,809	0	95,809
Deferred revenue	0	108,767	0	0	0	0	0	108,767
Lease and bonded debt obligations — <i>Note 4</i>	0	0	0	0	0	0	4,086,269	4,086,269
TOTAL LIABILITIES	393,782	125,830	27,792	0	4,700	109,564	4,086,269	4,747,937

FUND EQUITY

Retained earnings	0	0	0	0	130,259	0	0	130,259
Fund balances:								
Unreserved	1,140,459	46,658	276,908	0	0	0	0	1,464,025
TOTAL FUND EQUITY	1,140,459	46,658	276,908	0	130,259	0	0	1,594,284

**TOTAL LIABILITIES AND
FUND EQUITY**

\$ 1,534,241	\$ 172,488	\$ 304,700	\$ 0	\$ 134,959	\$ 109,564	\$ 4,086,269	\$ 6,342,221
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The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
For the Year Ended June 30, 2003

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	EXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)
REVENUES						
From local sources:						
Taxes:						
Property	\$ 1,018,375	\$ 0	\$ 117,092	\$ 0	\$ 0	\$ 1,135,467
Motor vehicle	127,075	0	0	0	0	127,075
Utilities	400,621	0	0	0	0	400,621
Other	66,911	0	0	0	0	66,911
Earnings on investments	88,878	880	516	397	0	90,671
Other local revenues	30,008	100,376	0	0	0	130,384
Intergovernmental — state	6,008,391	526,542	315,864	0	0	6,850,797
Intergovernmental — indirect federal	8,248	529,012	0	0	0	537,260
Intergovernmental — direct federal	3,860	44,160	0	0	0	48,020
TOTAL REVENUES	7,752,367	1,200,970	433,472	397	0	9,387,206
EXPENDITURES						
Current:						
Instruction	4,723,147	786,813	0	0	0	5,509,960
Support services:						
Student	304,732	83,119	0	0	0	387,851
Instructional staff	383,532	127,608	0	0	0	511,140
District administration	417,107	11,312	0	0	0	428,419
School administration	652,374	8,808	0	0	0	661,182
Business	136,372	0	0	0	0	136,372

Plant operations and maintenance	812,309	22,259	0	0	0	834,568
Student transportation	391,897	39,381	0	0	0	431,278
Central office	122,978	0	0	0	0	122,978
Facilities acquisition and construction ..	0	0	265,994	0	0	265,994
Debt service	0	0	0	363,090	0	363,090
Other	0	133,416	0	0	750	134,166
TOTAL EXPENDITURES	7,944,448	1,212,716	265,994	363,090	750	9,786,998
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(192,081)	(11,746)	167,478	(362,693)	(750)	(399,792)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	0	0	125,000	0	0	125,000
Operating transfers	(15,548)	15,892	(362,692)	362,348	0	0
TOTAL OTHER FINANCING SOURCES (USES)	(15,548)	15,892	(237,692)	362,348	0	125,000
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(207,629)	4,146	(70,214)	(345)	(750)	(274,792)
FUND BALANCES, JULY 1, 2002	1,348,088	42,512	347,122	345	750	1,738,817
FUND BALANCES, JUNE 30, 2003	\$ 1,140,459	\$ 46,658	\$ 276,908	\$ 0	\$ 0	\$ 1,464,025

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2003

	PROPRIETARY FUND TYPES
	ENTERPRISE
OPERATING REVENUES	
Lunchroom sales	\$ 159,089
Other local revenue	500
TOTAL OPERATING REVENUES	159,589
OPERATING EXPENSES	
Salaries and wages	249,774
Contract services	27,310
Materials and supplies	223,916
Other operating expenses	2,296
Depreciation expense	9,119
Other	115
TOTAL OPERATING EXPENSES	512,530
OPERATING LOSS	(352,941)
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	62,271
Federal operating grants	282,703
Donated commodities	26,492
Interest revenue	2,914
NON-OPERATING REVENUES (EXPENSES)	374,380
NET INCOME	21,439
RETAINED EARNINGS, JULY 1, 2002	108,820
RETAINED EARNINGS, JUNE 30, 2003	\$ 130,259

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2003

	PROPRIETARY FUND TYPES
	ENTERPRISE
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (352,941)
Depreciation	9,119
Adjustments to reconcile operating loss to cash used in operating activities:	
Donated commodities	26,492
Increase in inventory	(1,424)
Increase in accounts payable	4,426
Net Cash Used In Operating Activities	(314,328)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating grants received	62,271
Federal operating grants received	282,703
Net Cash Provided By Noncapital Financing Activities	344,974
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,057)
Net Cash Used In Capital and Related Financing Activities	(1,057)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	2,914
Net Cash Provided By Investing Activities	2,914
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,503
CASH AND CASH EQUIVALENTS, JULY 1, 2002	49,898
CASH AND CASH EQUIVALENTS, JUNE 30, 2003	\$ 82,401

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2003

GENERAL FUND			
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
From local sources:			
Taxes:			
Property	\$ 925,000	\$ 1,018,375	\$ 93,375
Motor vehicle	100,000	127,075	27,075
Utilities	345,000	400,621	55,621
Other	40,084	66,911	26,827
Earnings on investments	95,000	102,858	7,858
Net increase (decrease) in fair market value of investments	0	(13,980)	(13,980)
Other local revenues	13,500	30,008	16,508
Intergovernmental — state	4,662,421	6,008,391	1,345,970
Intergovernmental — federal	0	8,248	8,248
Direct federal revenue	0	3,860	3,860
TOTAL REVENUES	6,181,005	7,752,367	1,571,362
EXPENDITURES			
Current:			
Instruction	3,658,577	4,723,147	(1,064,570)
Support services:			
Student	270,524	304,732	(34,208)
Instructional staff	320,616	383,532	(62,916)
District administration	1,026,233	417,107	609,126
School administration	554,714	652,374	(97,660)
Business	59,919	136,372	(76,453)
Plant operations and maintenance	976,382	812,309	164,073
Student transportation	413,731	391,897	21,834
Central office	141,908	122,978	18,930
TOTAL EXPENDITURES	7,422,604	7,944,448	(521,844)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,241,599)	(192,081)	1,049,518
OTHER FINANCING SOURCES (USES)			
Operating transfers	(22,033)	(15,548)	6,485
TOTAL OTHER FINANCING SOURCES (USES)	(22,033)	(15,548)	6,485
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,263,632)	(207,629)	1,056,003
FUND BALANCE, JULY 1, 2002	1,263,632	1,348,088	84,456
FUND BALANCE, JUNE 30, 2003	\$ 0	\$ 1,140,459	\$ 1,140,459

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE — BUDGET AND ACTUAL
SEEK CAPITAL OUTLAY FUND
For the Year Ended June 30, 2003

	SEEK CAPITAL OUTLAY FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Intergovernmental – state	\$ 116,230	\$ 116,230	\$ 0
TOTAL REVENUES	<u>116,230</u>	<u>116,230</u>	<u>0</u>
EXPENDITURES			
Current:			
Facilities acquisition and construction	138,517	0	138,517
TOTAL EXPENDITURES	<u>138,517</u>	<u>0</u>	<u>138,517</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(22,287)</u>	<u>116,230</u>	<u>138,517</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers	(51,266)	0	51,266
TOTAL OTHER FINANCING SOURCES (USES)	<u>(51,266)</u>	<u>0</u>	<u>51,266</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(73,553)</u>	<u>116,230</u>	<u>189,783</u>
FUND BALANCE, JULY 1, 2002	<u>73,553</u>	<u>73,553</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2003	<u><u>\$ 0</u></u>	<u><u>\$ 189,783</u></u>	<u><u>\$ 189,783</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE — BUDGET AND ACTUAL
FSPK FUND
For the Year Ended June 30, 2003

	FSPK FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
From local sources:			
Taxes:			
Property	\$ 117,092	\$ 117,092	\$ 0
Intergovernmental — state	199,635	199,634	(1)
TOTAL REVENUES	316,727	316,726	(1)
EXPENDITURES	0	0	0
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	316,727	316,726	(1)
OTHER FINANCING SOURCES (USES)			
Operating transfers	(520,209)	(475,378)	44,831
TOTAL OTHER FINANCING SOURCES (USES)	(520,209)	(475,378)	44,831
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(203,482)	(158,652)	44,830
FUND BALANCE, JULY 1, 2002	203,482	203,482	0
FUND BALANCE, JUNE 30, 2003	\$ 0	\$ 44,830	\$ 44,830

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE — BUDGET AND ACTUAL
CONSTRUCTION FUND
For the Year Ended June 30, 2003

	CONSTRUCTION FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
From local sources:			
Earnings on investments	\$ 0	\$ 516	\$ 516
TOTAL REVENUES	0	516	516
EXPENDITURES			
Current:			
Facilities acquisition and construction	320,728	265,994	54,734
TOTAL EXPENDITURES	320,728	265,994	54,734
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(320,728)	(265,478)	55,250
OTHER FINANCING SOURCES (USES)			
Bond proceeds	125,000	125,000	0
Operating transfers	125,641	112,686	(12,955)
TOTAL OTHER FINANCING SOURCES (USES)	250,641	237,686	(12,955)
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(70,087)	(27,792)	42,295
FUND BALANCE, JULY 1, 2002	70,087	70,087	0
FUND BALANCE, JUNE 30, 2003	\$ 0	\$ 42,295	\$ 42,295

The accompanying notes are an integral part of the financial statements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Russellville Independent Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Russellville Independent School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Russellville Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Russellville Independent School District Finance Corporation — The Russellville Independent Board of Education resolved to authorize the establishment of the Russellville Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Russellville Independent Board of Education also comprise the Corporation's Board of Directors.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)**

● **Fund Accounting**

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds along with the associated restrictions follows:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK Capital Outlay Fund)* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

• **Proprietary Fund Types** (Enterprise Fund)

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA).

The *Community Education Fund* is used to account for local community education activities.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

• **Fiduciary Fund Types** (includes agency and trust funds)

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

The *Expendable Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets of which both the principal and interest may be spent.

• **Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

T General Fixed Assets Account Group

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The District does not maintain a record of the cost of its property and equipment for the governmental fund types, therefore, no group of accounts is maintained.

T General Long-Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, including bonded debt, lease obligations and long-term portion of compensated absences, except those accounted for in Proprietary Funds and Trust Funds. The amount shown in the accompanying balance sheet as general long-term obligations represents the District's future obligations to make debt and lease payments relating to the bond issues described in *Note 4*. Future yearly bonded debt and lease payments equate to the payments of principal and interest shown in *Note 4*. Upon full payment of the bonds and related interest, title to the school facilities and equipment will be conveyed to the District.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

In governmental funds, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

● **Basis of Accounting**

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Fixed Assets — Equipment**

Proprietary Fund — All purchased fixed assets are valued at cost. Depreciation is recorded over the estimated useful lives on the straight line method. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the general long-term debt account group.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Total Columns**

Total columns on the financial statements are indicated as "Memorandum Only" as data in these columns do not present financial positions, results of operations or changes in fund balance in conformity with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Investment Income**

Assets earning investment income in the Special Revenue Fund, FSPK Fund, SEEK Capital Outlay Fund and Construction Fund have assigned all or part of their investment earnings to the General Fund. The amount of investment income the General Fund received from this assignment was \$17,918 for the year ended June 30, 2003.

NOTE 2: CASH AND INVESTMENTS

At June 30, 2003, the reported amount of the District's demand and time deposits was \$1,574,256 and the bank balance was \$2,370,617. The bank balance was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

● **Investments**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 2: CASH AND INVESTMENTS (Continued)

	<u>Categories</u>			<u>Reported Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government Obligations and				
U.S. Government agencies	\$ 482,091	\$ 0	\$ 0	\$ 482,091

The District invests in various U.S. Government agencies (external investment pools) such as: Federal National Mortgage Corporation, Government National Mortgage Corporation, and Federal Home Loan Mortgage Corporation. All such investments are forms of mortgage-backed securities and are sensitive to interest rate changes in the market. The fair value of the U.S. Government agencies (external investment pools) at year end is \$464,129.

NOTE 3: FIXED ASSETS

Equipment recorded in the District's Proprietary Funds at June 30, 2003 is as follows:

Food service equipment	\$ 114,408
Less accumulated depreciation	<u>(65,495)</u>
	<u>\$ 48,913</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 4: GENERAL LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease and bonded debt obligations represents the District's future obligations to make payments relating to the lease and bonds obligations.

On August 1, 2002, the District issued \$125,000 in bonds with an average interest rate of 4 percent to replace the flooring at the Russellville Middle School.

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1991	\$ 1,300,000	6.20% – 6.75%
1996	1,915,000	4.00% – 5.20%
1998	745,000	4.25%
2001	740,000	3.80% – 5.00%
2001R	330,000	3.65%
2002	125,000	3.00% – 4.20%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Russellville Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District at June 30, 2003 for debt service (principal and interest) are as follows:

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 4: GENERAL LONG-TERM OBLIGATIONS
(Continued)

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2003–2004	\$ 158,659	\$ 205,000	\$ 363,659
2004–2005	149,270	215,000	364,270
2005–2006	140,246	225,000	365,246
2006–2007	130,743	225,000	355,743
2007–2008	120,951	240,000	360,951
2008–2009	110,202	260,000	370,202
2009–2010	98,803	265,000	363,803
2010–2011	86,973	280,000	366,973
2011–2012	76,974	290,000	366,974
2012–2013	62,960	295,000	357,960
2013–2014	48,125	305,000	353,125
2014–2015	32,533	325,000	357,533
2015–2016	15,694	335,000	350,694
	<u>\$ 1,232,133</u>	<u>\$ 3,465,000</u>	<u>\$ 4,697,133</u>

As discussed in *Note 1*, the District does not maintain a general fixed assets account group. All fixed assets and capital leases are treated as an expenditure in the fund from which they were purchased except the proprietary fund type in which fixed assets are capitalized. Commitments under non-cancellable operating lease agreements for equipment as of June 30, 2003 are as follows:

<u>For the Years Ending June 30,</u>	
2004	\$ 87,165
2005	71,735
2006	69,690
2007	69,576
2008	29,736
Thereafter	<u>64,536</u>
Total Minimum Rentals	<u>\$ 392,438</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 4: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Changes in general long-term debt account group are as follow:

	Balance, July 1, 2002	Issued or Acquired	Repaid, Defeased or Sold	Balance, June 30, 2003
District debt:				
General obligation bonds	\$ 3,535,000	\$ 125,000	\$ 195,000	\$ 3,465,000
Operating leases	443,880	119,496	170,938	392,438
Long-term portion of compensated absences	0	228,831	0	228,831
	<u>\$ 3,978,880</u>	<u>\$ 473,327</u>	<u>\$ 365,938</u>	<u>\$ 4,086,269</u>

NOTE 5: PENSION PLANS

Plan Descriptions. The Russellville Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of the KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: PENSION PLANS (Continued)

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plan's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$82,956, \$82,396 and \$81,944, respectively, equal to the required contributions for each year.

On-behalf payments. Amounts have been recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for pension contributions and health costs for the year ended June 30, 2003.

This includes \$550,876 recognized for revenues and expenditures relating to pension contributions for its employees that the Commonwealth of Kentucky paid directly to KTRS for the year ended June 30, 2003. Also included are \$580,380 and \$206,314 in revenues and expenditures relating to health costs for District employees and the vocational education program, respectively.

NOTE 6: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, property, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Fund (KSBIT). These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 9: TRANSFER OF FUNDS

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 9,298
Operating	General	Special Revenue	Operations	6,594
Operating	FSPK	Construction Fund	Capital Outlay	112,686
Operating	FSPK	Debt Service	Debt Service	362,692
Operating	Debt Service	General Fund	Operations	344

NOTE 10: DEFICIT OPERATING — FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ 207,629
Construction Fund	27,792
Community Education Fund	115
FSPK	158,652
Debt Service	345
Agency Fund	750

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 11: CHANGES IN ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. It will create new information and will restructure much of the information that governments have presented in the past. It establishes that the basic financial statements and required supplementary information for the general purpose governments should consist of:

- T Management’s discussion and analysis (MD&A)
- T Basic financial statement:
 - Government-wide financial statements
 - Fund financial statements
- T Notes to the financial statements
- T Required supplementary information (RSI)

GASB Statement No. 34 is effective in three phases based on total annual revenues of the primary government’s governmental and proprietary funds reported for the fiscal year ended June 30, 1999. GASB Statement No. 34 is effective for the District for the fiscal year beginning July 1, 2003. The effect GASB Statement No. 34 has on the District has not yet been determined.

SUPPLEMENTAL INFORMATION

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL CAPITAL PROJECT FUNDS
June 30, 2003

	SEEK FUND	FSPK FUND	CONSTRUCTION FUND	TOTALS CAPITAL PROJECTS FUNDS
ASSETS				
Cash	\$ 189,783	\$ 44,830	\$ 70,087	\$ 304,700
TOTAL ASSETS	\$ 189,783	\$ 44,830	\$ 70,087	\$ 304,700
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ 0	\$ 0	\$ 27,792	\$ 27,792
FUND BALANCES				
Unreserved	189,783	44,830	42,295	276,908
TOTAL FUND BALANCES	189,783	44,830	42,295	276,908
TOTAL LIABILITIES AND FUND BALANCES	\$ 189,783	\$ 44,830	\$ 70,087	\$ 304,700

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL CAPITAL PROJECT FUNDS
For the Year Ended June 30, 2003

	SEEK FUND	FSPK FUND	CONSTRUCTION FUND	TOTALS CAPITAL PROJECTS FUNDS
REVENUES				
From local sources:				
Taxes:				
Property	\$ 0	\$ 117,092	\$ 0	\$ 117,092
Earnings on investments	0	0	516	516
Intergovernmental — state	116,230	199,634	0	315,864
TOTAL REVENUES	116,230	316,726	516	433,472
EXPENDITURES				
Current:				
Facilities acquisition and construction	0	0	265,994	265,994
TOTAL EXPENDITURES	0	0	265,994	265,994
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	116,230	316,726	(265,478)	167,478
OTHER FINANCING SOURCES (USES)				
Bond proceeds	0	0	125,000	125,000
Operating transfers	0	(475,378)	112,686	(362,692)
TOTAL OTHER FINANCING SOURCES (USES)	0	(475,378)	237,686	(237,692)
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	116,230	(158,652)	(27,792)	(70,214)
FUND BALANCES, JULY 1, 2002	73,553	203,482	70,087	347,122
FUND BALANCES, JUNE 30, 2003	\$ 189,783	\$ 44,830	\$ 42,295	\$ 276,908

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL DEBT SERVICE FUNDS
June 30, 2003

	1991 BOND ISSUE	1996 BOND ISSUE	1998 BOND ISSUE	2001 BOND ISSUE	2001R BOND ISSUE	2002 BOND ISSUE	TOTAL DEBT SERVICE FUNDS
ASSETS							
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL ASSETS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
FUND BALANCES							
FUND BALANCES							
Unreserved	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL FUND BALANCES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL DEBT SERVICE FUNDS
For the Year Ended June 30, 2003

	1991 BOND ISSUE	1996 BOND ISSUE	1998 BOND ISSUE	2001 BOND ISSUE	2001R BOND ISSUE	2002 BOND ISSUE	TOTAL DEBT SERVICE FUNDS
REVENUES							
Earnings on investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 397	\$ 397
TOTAL REVENUES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>397</u>	<u>397</u>
EXPENDITURES							
Debt service and issuance cost	71,732	134,820	39,538	66,312	36,316	14,372	363,090
TOTAL EXPENDITURES	<u>71,732</u>	<u>134,820</u>	<u>39,538</u>	<u>66,312</u>	<u>36,316</u>	<u>14,372</u>	<u>363,090</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(71,732)</u>	<u>(134,820)</u>	<u>(39,538)</u>	<u>(66,312)</u>	<u>(36,316)</u>	<u>(13,975)</u>	<u>(362,693)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers	71,387	134,820	39,538	66,312	36,316	13,975	362,348
TOTAL OTHER FINANCING SOURCES (USES)	<u>71,387</u>	<u>134,820</u>	<u>39,538</u>	<u>66,312</u>	<u>36,316</u>	<u>13,975</u>	<u>362,348</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(345)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(345)</u>
FUND BALANCES, JULY 1, 2002	<u>345</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>345</u>
FUND BALANCES, JUNE 30, 2003	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL PROPRIETARY FUND TYPES
June 30, 2003

	PROPRIETARY FUND TYPES		
	ENTERPRISE		
	FOOD SERVICE	COMMUNITY EDUCATION	TOTAL ENTERPRISE FUNDS
ASSETS			
Cash	\$ 81,278	\$ 1,123	\$ 82,401
Inventory	3,645	0	3,645
Fixed assets – net	48,913	0	48,913
TOTAL ASSETS	<u>\$ 133,836</u>	<u>\$ 1,123</u>	<u>\$ 134,959</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 4,585	\$ 115	\$ 4,700
TOTAL LIABILITIES	4,585	115	4,700
FUND EQUITY			
Retained earnings	129,251	1,008	130,259
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 133,836</u>	<u>\$ 1,123</u>	<u>\$ 134,959</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2003

	PROPRIETARY FUND TYPES		
	ENTERPRISE		
	FOOD SERVICE	COMMUNITY EDUCATION	TOTAL ENTERPRISE FUNDS
OPERATING REVENUES			
Lunchroom sales	\$ 159,089	\$ 0	\$ 159,089
Other local revenue	500	0	500
TOTAL OPERATING REVENUES	159,589	0	159,589
OPERATING EXPENSES			
Salaries and wages	249,774	0	249,774
Contract services	27,310	0	27,310
Materials and supplies	223,916	0	223,916
Other operating expenses	2,296	0	2,296
Depreciation expense	9,119	0	9,119
Other	0	115	115
TOTAL OPERATING EXPENSES	512,415	115	512,530
OPERATING LOSS	(352,826)	(115)	(352,941)
NON-OPERATING REVENUES (EXPENSES)			
State operating grants	62,271	0	62,271
Federal operating grants	282,703	0	282,703
Donated commodities	26,492	0	26,492
Interest revenue	2,914	0	2,914
NON-OPERATING REVENUES (EXPENSES)	374,380	0	374,380
NET INCOME (LOSS)	21,554	(115)	21,439
FUND EQUITY, JULY 1, 2002	107,697	1,123	108,820
FUND EQUITY, JUNE 30, 2003	\$ 129,251	\$ 1,008	\$ 130,259

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2003

	PROPRIETARY FUND TYPES		
	ENTERPRISE		
	FOOD SERVICE	COMMUNITY EDUCATION	TOTAL ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (352,826)	\$ (115)	\$ (352,941)
Depreciation	9,119	0	9,119
Adjustments to reconcile operating loss to cash used in operating activities:			
Donated commodities	26,492	0	26,492
Increase in inventory	(1,424)	0	(1,424)
Increase in accounts payable	4,311	115	4,426
Net Cash Used In Operating Activities	(314,328)	0	(314,328)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State operating grants received	62,271	0	62,271
Federal operating grants received	282,703	0	282,703
Net Cash Provided By Noncapital Financing Activities	344,974	0	344,974
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(1,057)	0	(1,057)
Net Cash Used In Capital and Related Financing Activities	(1,057)	0	(1,057)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	2,914	0	2,914
Net Cash Provided By Investing Activities	2,914	0	2,914
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,503	0	32,503
CASH AND CASH EQUIVALENTS, JULY 1, 2002	48,775	1,123	49,898
CASH AND CASH EQUIVALENTS, JUNE 30, 2003	\$ 81,278	\$ 1,123	\$ 82,401

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
UNITED WAY 2003
For the Year Ended June 30, 2003

	FAMILY RESOURCE CENTER	YOUTH SERVICE CENTER	TOTAL UNITED WAY FUNDS
REVENUES			
United Way revenue	\$ 7,510	\$ 0	\$ 7,510
TOTAL REVENUES	<u>7,510</u>	<u>0</u>	<u>7,510</u>
EXPENDITURES			
Community service	2,936	0	2,936
TOTAL EXPENDITURES	<u>2,936</u>	<u>0</u>	<u>2,936</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	4,574	0	4,574
FUND BALANCE, JULY 1, 2002	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2003	<u><u>\$ 4,574</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,574</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
UNITED WAY 2002
For the Year Ended June 30, 2003

	FAMILY RESOURCE CENTER	YOUTH SERVICE CENTER	TOTAL UNITED WAY FUNDS
REVENUES			
United Way revenue	\$ 4,601	\$ 4,158	\$ 8,759
TOTAL REVENUES	<u>4,601</u>	<u>4,158</u>	<u>8,759</u>
EXPENDITURES			
Community service	4,601	794	5,395
TOTAL EXPENDITURES	<u>4,601</u>	<u>794</u>	<u>5,395</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	0	3,364	3,364
FUND BALANCE, JULY 1, 2002	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, JUNE 30, 2003	<u><u>\$ 0</u></u>	<u><u>\$ 3,364</u></u>	<u><u>\$ 3,364</u></u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
SCHOOL ACTIVITY FUNDS
ALL ACTIVITY FUNDS
June 30, 2003

	<u>BALANCE JULY 1, 2002</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2003</u>
ASSETS				
Cash	\$ 124,703	\$ 299,245	\$ 316,643	\$ 107,305
Accounts receivable	6,419	2,259	6,419	2,259
TOTAL ASSETS	<u>\$ 131,122</u>	<u>\$ 301,504</u>	<u>\$ 323,062</u>	<u>\$ 109,564</u>
LIABILITIES				
LIABILITIES				
Accounts payable	\$ 18,122	\$ 13,755	\$ 18,122	\$ 13,755
Due to student groups	113,000	287,749	304,940	95,809
TOTAL LIABILITIES	<u>\$ 131,122</u>	<u>\$ 301,504</u>	<u>\$ 323,062</u>	<u>\$ 109,564</u>

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
SCHOOL ACTIVITY FUNDS
RUSSELLVILLE HIGH SCHOOL
June 30, 2003

	CASH BALANCES JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Academic Team	\$ 19	\$ 0	\$ 0	\$ 19
Art Club	10	0	0	10
Athletics	4,318	0	1,593	2,725
Band	4	0	0	4
Band Certificate of Deposit	1,606	0	0	1,606
Baseball	5,777	0	618	5,159
Beta Club	111	0	0	111
Bookstore	227	0	0	227
Boys' Basketball	106	0	0	106
Cheerleaders	350	0	0	350
Chorus	7	0	0	7
Deca	191	0	0	191
Drama	407	0	0	407
Environmental Science	500	0	0	500
FCA	169	0	0	169
Material Fees	1,728	0	0	1,728
FCC Leaders of America	1,664	0	0	1,664
Football	562	0	242	320
General	1,234	0	0	1,234
Girls' Basketball	903	0	0	903
Golf	3,332	0	0	3,332
Lance	96	0	0	96
Library	146	0	0	146
Mary Hope H	199	0	0	199
Math Club	2	0	0	2
National Honor Society	489	0	0	489
Panther Press	728	0	0	728
Pep Club	122	0	0	122
Picture Commission	88	0	65	23
Positive Panther Peers	380	0	0	380
ROTC	314	0	135	179
Science Club	1,400	0	0	1,400
Senior Class	3,162	0	0	3,162
Shakespearean Fest	293	0	0	293
Soccer	1,578	0	0	1,578
Softball	1,095	0	0	1,095

	CASH BALANCES JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Speech Club	95	0	0	95
Teacher Lounge	545	0	0	545
High Technology	1,386	926	2,156	156
Vending Machines	271	0	0	271
Volleyball	620	0	0	620
World History	51	0	0	51
Yearbook	3,756	0	5,110	(1,354)
TOTAL	\$ 40,041	\$ 926	\$ 9,919	\$ 31,048

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
National School Lunch Program	10.555	0575-01-02	\$ 209,894
School Breakfast Program	10.553	0575-01-05	72,809
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	26,492
TOTAL U.S. DEPARTMENT OF AGRICULTURE			309,195
U.S. DEPARTMENT OF EDUCATION			
Impact Aid	84.041	—	3,860
Passed-Through State Department of Education:			
Title I, Part A — 2002	84.010	0531-02-01	89,029
Title I, Part A — 2003	84.010	0531-03-01	107,241
Title I, Part C — Migrant 2002	84.011	—	7,792
Title VI — Innovative Education — 2002	84.298A	—	384
Title VI — Innovative Education — 2003	84.298A	—	371
IDEA — Part B Special Education — 2002	84.027	0581-02-02	59,004
IDEA — Part B Special Education — 2003	84.027	0581-03-02	145,512
IDEA — Part B — Preschool — 2002	84.173	0587-02-02	18,741
IDEA — Part B — Preschool — 2003	84.173	0587-03-02	18,512
Title III — Limited English Proficiency — 2003	84.365		2,197
Title I, Part C — Carl Perkins Vocational Education — 2002	84.048	5462-02-32	1,272
Title I, Part C — Carl Perkins Vocational Education — 2003	84.048	5462-02-32	6,480
Technology Literacy Challenge Fund — 2001	84.318	0736-00-00	1,941
Title VI — Class Size Reduction Program — 2002	84.340	—	992
Title II, Part A — Teacher Quality — 2003	84.367	—	45,821
Title II — Eisenhower Math & Science — 2001	84.281A	0503-01-02	3,161
Title II — Eisenhower Math & Science — 2002	84.281A	0503-02-02	7,520
Title IV — Safe & Drug Free School — 2002	84.186A	0530-02-02	5,426
Goals 2000: EAA — Steve Level Activity — 2001	84.276A	—	98
Goals 2000: EAA — Integrated School Reform — 2001	84.276A	—	1,664
Enhancing Education Through Technology — 2003	84.318	—	3,526
Passed-Through State Workforce Cabinet:			
Community Based Work Transition	84.126A	—	1,472
TOTAL U.S. DEPARTMENT OF EDUCATION			532,016

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF DEFENSE			
ROTC — 2002	12.000	—	1,140
ROTC — 2003	12.000	—	43,020
TOTAL U.S. DEPARTMENT OF DEFENSE			44,160
U.S. DEPARTMENT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through State Department of Education:			
Service Learning — 2002	94.004	—	854
TOTAL U.S. DEPARTMENT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			854
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 886,225

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Russellville Independent School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the financial statements of ***Russellville Independent School District*** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 8, 2003 as modified by generally accepted accounting principle departures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, and Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing standards* and specific state

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statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting which we have reported to management in a separate letter dated August 8, 2003.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
August 8, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

● **Compliance**

We have audited the compliance of ***Russellville Independent School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditors' Contract—General Audit Requirements*, and *Appendix*

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II of the Independent Auditors' Contract—State Audit Requirements and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky
August 8, 2003

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Food Distribution Program
84.027	IDEA Special Education
84.173	IDEA Preschool

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CFDA Number	Program
None	

Summary

No findings or questioned costs.



Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

In planning and performing our audit of the financial statements of ***Russellville Independent School District*** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated August 8, 2003 contains our report on the District's internal control. This letter does not affect our report dated August 8, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Holland CPAs, PSC

Russellville, Kentucky
August 8, 2003

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RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

2002–2003

● Activity Funds — Individual Schools

U *All Schools*

- In reviewing the annual financial reports on each school, we noticed expenditures for the schools' per pupil allocation was being paid by the students' activity funds and reimbursed later by the District's general fund. The expenditures incurred for the per pupil allocation should be submitted to the District's Central Office for payment and not be paid by students' activity funds.

U *Stevenson Elementary School*

- During the review of the receipts, we noted both individuals counting the money were not initialing the deposit slips. Money should be counted by two individuals and the deposit slips should be initialed by both individuals. Initialing the deposit slips documents that the two individuals have counted the cash.

U *Russellville Middle School*

- While testing disbursements, we noted two activity funds have a negative fund balance. After accounts receivables and accounts payables are booked, no activity fund should have a negative fund balance. We recommend the balances in each account be watched closely to prevent further occurrences.
- While testing disbursements, we noted documentation of the receipt of merchandise was not performed consistently. The person receiving merchandise should document the quantities received as compare to the purchase order. We recommend the individual receiving the merchandise should document that the merchandise has been received on the purchase order or the invoice.

RUSSELLVILLE INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

U *Russellville High School*

- While testing disbursements, we noted one activity fund has a negative fund balance. After accounts receivables and accounts payables are booked, no activity fund should have a negative fund balance. We recommend the balances in each account be watched closely to prevent further occurrences.

● **Receipts**

- U In reviewing controls over receipts, we noted that validated deposit slips are not agreed to the listing of receipts created when opening the mail. We suggest the person opening the mail and listing the receipts should restrictively endorse each check and also agree the validated deposit slip to the listing of receipts. Any variances should be investigated.

● **Credit Cards**

- U In reviewing the District's controls, we noticed the District does not have written policies and procedures for use of credit cards. We recommend written policies and procedures over credit cards be established to ensure the cards are used for their intended purposes.

RUSSELLVILLE INDEPENDENT SCHOOLS

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Dr. Kenneth E. Stephens
Superintendent

James C. Milam
Board Chairman

October 1, 2003

Laney White
Holland CPAs PSC
PO Box 104
Bowling Green, KY 42102-0104

Dear Laney:

We have reviewed the "comments and recommendations" on the audit for the year ending June 30, 2003. We appreciate any comments or suggestions you can make in which our district can improve. Attached are the responses to your comments and recommendations.

- **Activity Funds – All Schools**
New procedures have already been developed and are currently being implemented. The finance officer and superintendent prior to procurement approve all school purchases. Invoices are currently being paid at the central office.
- **Stevenson Elementary School**
Two people will initial all deposit tickets to document the counting of the money.
- **Russellville Middle School**
A transfer will be made from the principal's fund to pay for any funds over expenditure.

In the audit year, invoices were being paid after the school bookkeeper inquired of the receipt of goods but without documenting with a signature. In the future, invoices will be documented with a signature or an attached signed packing slip.
- **Russellville High School**
A transfer will be made from the principal's fund to pay for any funds over expenditure.
- **Receipts**
The person opening the mail will make a list of all receipts and restrictively endorse the checks. The person will compare and document the list to the deposit slip subsequent to the depositing of the funds.
- **Credit Cards**
A procedure will be established that limits the use of credit cards at the district as well as the school level.

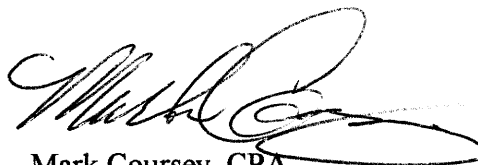
The Russellville Independent Board of Education does not discriminate on the basis of age, color, disability, parental status, marital status, race, national origin, religion, sex, or veteran status in the programs, activities, and services it provides, as required by law.

Should you need any additional information or have any other comments, please feel free to contact us.

Very truly yours,



Dr. Kenneth Stephens
Superintendent
Russellville Independent School District



Mark Coursey, CPA
Finance Officer
Russellville Independent School District



Kentucky State Committee for School District Audits
Members of the Board of Education
Russellville Independent School District
Russellville, Kentucky

We have audited the financial statements of ***Russellville Independent School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated August 8, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance

with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purposes of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted during the year. The application of existing policies was not changed during 2002–2003. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School Districts and management of ***Russellville Independent School District*** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC